

OFFICE OF AUDITS & ADVISORY SERVICES



DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT OFFICERS' TRANSITION AUDIT

FINAL REPORT

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HUMAN RESOURCES
RETIREMENT ASSOCIATION
TREASURER-TAX COLLECTOR

January 25, 2013

TO: Todd Henderson, Director
Housing and Community Development

FROM: Juan R. Perez
Chief of Audits

FINAL REPORT: DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT OFFICERS' TRANSITION AUDIT

Enclosed is our report on the Department of Housing and Community Development Officers' Transition Audit. We have reviewed your responses to our recommendations and have attached them to the audit report. The actions taken, in general, are responsive to the recommendations in the report.

Thank you for the courteousness and cooperation extended to the Office of Audits & Advisory Services during the course of the audit.

If you have any questions, please contact me at (858) 495-5661.

JUAN R. PEREZ
Chief of Audits

AUD:KM:aps

Enclosure

c: David Estrella, Deputy Chief Administrative Officer, Community Services Group
Tracy M. Sandoval, General Manager/Auditor and Controller
Kaye Hobson, Group Finance Director, Community Services Group

INTRODUCTION

Audit Objective	The Office of Audits & Advisory Services (OAAS) has completed an officers' transition audit for the Department of Housing and Community Development (HCD). The objective of the audit was to determine if there is reasonable assurance that the outgoing officer, David Estrella, and incoming officer, Todd Henderson, took appropriate actions and filed required reports as of July 13, 2012 in compliance with California Codes, County regulatory requirements, and County policies and procedures. These requirements were explained in the instruction letter provided to each officer.
Background	The County Charter requires that the OAAS conduct such an audit when County officers leave or assume office to determine if certain affidavits, authorizations, disclosures, and reports are properly completed and processed. These actions provide for an orderly transition of officers, establish proper accountability for public assets and promote the County's General Management System (GMS), including its key disciplines of accountability, transparency and ethical conduct; fiscal stability; and continuous improvement and innovation.
Audit Scope & Limitations	<p>The reports are the responsibility of the officer who signs them. The OAAS' responsibility is to provide an opinion on the reports based upon the audit.</p> <p>This audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing prescribed by the Institute of Internal Auditors as required by California Government Code, Section 1236.</p>
Methodology	OAAS reviewed all the reports filed by the outgoing and incoming officers, obtained supporting documentation, and performed limited internal control testing.

AUDIT RESULTS

Summary	In our opinion, there is reasonable assurance that the outgoing and incoming officers took appropriate actions and filed required reports in compliance with California Codes, County regulatory requirements, and County policies and procedures in connection with an officer's transition. However, the exceptions described below were noted:
Finding I:	<p>Process Controls Over the Maintenance of Account Receivables Needs to be Strengthened</p> <p>HCD does not have adequate controls in place to ensure that batched Account Receivable (A/R) payments are posted on a timely basis to Oracle General Ledger and that the detail of the A/R payment is posted to the HCD's internal Excel spreadsheet. OAAS sampled five A/R accounts with a total balance of \$1,432,021. Of these five accounts, eight sub-accounts in the amount of \$159,801 were selected for further</p>

detail testing. The reported balance as of the transition date for two of the eight sub-accounts sampled (25%) were overstated due to payments received not being posted by the transition date. Also noted on these two sub-accounts was that HCD did not post these payments for the periods of March – June 2012 to the HCD's A/R accounts until July 2012.

The accounts sampled had past due balances and had been referred to the Auditor and Controller's (A&C) Office of Revenue and Recovery (ORR) division for collection. While payments to these accounts were received by ORR, HCD did not post payments in a timely manner to properly update their A/R system. HCD management indicated that this is a result of changes in A/R related procedures, as well as staffing transition.

According to the County of San Diego Year-End Closing Manual, departments are required to report updated A/R balances every quarter to the A&C's Projects, Revenue and Grants Accounting (PRGA) division through the completion of Form AUD213. Without consistent compliance with the reporting requirements, A/R balances reported to A&C may be inaccurate and incomplete.

Recommendation:

In order to ensure that balances are accurate and properly reported to the A&C in compliance with policy, HCD should strengthen process controls over the maintenance and update of A/R accounts. This should include the following:

1. Establish a process to ensure that payments collected and reported by ORR are posted to HCD A/R accounts on a timely basis.
2. Implement routine supervisory monitoring controls as a means to effectively review accuracy and completeness of the A/R accounts.

Finding II:

Safeguarding Petty Cash and Payment Collections Needs to be Strengthened

HCD maintains petty cash along with A/R payment collections in a locked safe in a secured environment. However, during audit testing, OAAS observed certain control weaknesses around safeguarding these assets. We noted the following observations:

- The combination of the safe is not changed when new permanent custodian changes occur.
- An access log book is not being kept to track and monitor safe access.
- The petty cash lock box and the key that opens it are stored inside the safe with no additional safeguarding.

The San Diego County Treasurer-Tax Collector Cash Handling Policies and Procedures, Section 3.2.1, Office Safes, states that "safe combinations should be changed periodically and always when

permanent custody changes (employee turnover). Access to the safe must be monitored through a written access log. Each time that the main safe is opened and closed, there shall be two employees present (double custody/dual custody).”

According to HCD staff, the safe combination cannot be changed when permanent custody changes occur because the safe combination is unchangeable on this older model. The lack of effective safekeeping controls increases the risk of cash misappropriation over petty cash and A/R payment collections.

Recommendation: To strengthen safekeeping controls over petty cash and A/R payment collections, HCD should:

1. Replace the current safe with a newer model that allows the ability to change the combination periodically or when permanent custody changes occur.
2. Implement a process to track and monitor safe access, i.e., a written access log.
3. Ensure that the petty cash custodian maintains the petty cash lock box key in a secured area but separate from the lock box.

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DEPARTMENT'S RESPONSE



County of San Diego

TODD HENDERSON
Director

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

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January 22, 2013

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JAN 24 2013

TO: Juan R. Perez
Chief of Audits

OFFICE OF AUDITS &
ADVISORY SERVICES

FROM: Todd Henderson, Director
Department of Housing and Community Development

DEPARTMENT RESPONSE TO AUDIT RECOMMENDATIONS: DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT OFFICERS' TRANSITION AUDIT

Finding I: Process Controls Over the Maintenance of Account Receivables Needs to be strengthened.

OAAS Recommendation: In order to ensure that balances are accurate and properly reported to the A&C in compliance with policy, HCD should strengthen process controls over the maintenance and update of A/R accounts. This should include the following:

1. Establish a process to ensure that payments collected and reported by ORR are posted to HCD A/R accounts on a timely basis.

Action Plan: Accounts Receivable procedure has been enhanced to record payments collected by ORR in a timely manner. Once HCD received the report from ORR, the payments collected are posted to HCD A/R file by the Accounting Technician on the month it was received. MTB-T is prepared and processed at the same time to ensure that Accounts Receivable balance is adjusted in Oracle.

Planned Implementation Date: October 2012

Contact Information for Implementation: Art Osorio, Senior Accountant

2. Implement routine supervisory monitoring controls as a means to effectively review accuracy and completeness of the A/R accounts.

Action Plan: The Senior Accountant reviews the monthly A/R report to ensure all collections are properly recorded.

Planned Completion Date: December 2012

Contact Information for Implementation: Art Osorio, Senior Accountant

Serving as the Housing Authority of the County of San Diego

Juan R. Perez, Chief of Audits
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January 22, 2013

Finding II: Safeguarding Petty Cash and Payment Collections Needs to be strengthened.

OAAS Recommendation: To strengthen safekeeping controls over petty cash and A/R payment collections, HCD should:

1. Replace the current safe with newer model that allows the ability to change the combination periodically or when permanent custody changes occur.

Action Plan: A new safe was purchased to replace the outdated safe.

Planned Implementation Date: December 2012

Contact Information for Implementation: Art Osorio, Senior Accountant

2. Implement a process to track and monitor safe access, i.e., a written log.

Action Plan: HCD maintains a written access log.

The log contains the following information:

- a) Date
- b) Name
- c) Purpose of accessing the safe
- d) Time
- e) Person verifying safe access

Planned Implementation Date: September 2012

Contact Information for Implementation: Art Osorio, Senior Accountant

3. Ensure that the petty cash custodian maintains the petty cash lock box key in a secured area but separate from the lock box.

Action Plan: The petty cash custodian maintains the petty cash lock key in a secured area.

Planned Implementation Date: October 2012

Contact Information for Implementation: Deborah Schaller, Account Clerk Specialist

If you have any questions, please contact me at (858) 694-8750.

Sincerely,



TODD HENDERSON, Director
Department of Housing and Community Development

TH/BB/AO